

## Message Text

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C O N F I D E N T I A L STATE 196158

LIMDIS

E.O. 11652: GDS

TAGS: EMIN, ETRD, BDIS, EEWT, CH, US

SUBJECT: CONTROLS ON STEEL SCRAP EXPORTS TO THE PRC

REF: STATE 034369

1. AT HIS REQUEST, PRCLO COMMERCIAL COUNSELOR CHANG  
TSIEN-HUA MET WITH ARMSTRONG OF EA/PRCM AND JOHN INGERSOLL  
OF EB/ORF/ICD IN DEPARTMENT AUGUST 28 TO DISCUSS THE  
PROBLEM OF US EXPORT CONTROLS ON STEEL SCRAP.

2. CHANG BEGAN BY NOTING THAT THIS TIME PRC SIDE TAKING  
INITIATIVE. SAID THAT MINMET CONTRACTS SIGNED SECOND HALF  
1973 WITH US EXPORTERS HAD TOTALLED 408,000 TONS (SHORT  
TONS THROUGHOUT). NONE SHIPPED, DUE TO CONTROLS, BUT US  
FIRMS STILL DISCUSSING ADDITIONAL 100,000 TONS, THOUGH NO  
CONTRACTS SIGNED.

3. CHANG THEN REITERATED POSITION REPORTED REFTTEL, THAT  
PRC DOES NOT BELIEVE-USG EXPORT CONTROLS--AN INTERNAL  
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MATTER--SHOULD BE-USED AS -EXCUSE FOR DISHONORING CONTRACTS.

TO DO SO IS CONTRARY TO SHANGHAI COMMUNIQUE, AND TO BASIC PRINCIPLE OF INTERNATIONAL TRADE THAT CONTRACTS SHOULD BE HONORED. PRC SIDE BELIEVES THAT IF THIS PRACTICE CONTINUES, WILL HAVE UNFAVORABLE EFFECT ON FUTURE EXPANSION OF SINO-US TRADE.

4. INGERSOLL AND ARMSTRONG AGAIN EXPLAINED REASONS FOR CONTROL PROGRAM AND WAY IT HAD BEEN ADMINISTERED, STRESSING OUR NEED TO TREAT BUYER NATIONS EQUALLY. INGERSOLL ADDED THAT WE WOULD LIKE TO DO AWAY WITH CONTROL PROGRAM, BUT THAT BECAUSE OF CONTINUED HIGH DEMAND FOR SCRAP, CONTROLS VIRTUALLY CERTAIN TO CONTINUE IN EFFECT AT LEAST THROUGH END 1974.

5. INGERSOLL NOTED THAT US HAD TRIED TO BE HELPFUL TO PRC IN FIRST QUARTER BY GRANTING 40,000 TON CONTINGENCY ALLOCATION, AND THAT WHILE WE CANNOT YET BE SURE WHAT WILL BE AVAILABLE IN THIS CATEGORY DURING THE FOURTH QUARTER, PRC NEEDS WILL BE KEPT IN MIND.

6. IN RESPONSE TO ARMSTRONG'S OBSERVATION THAT FAILURE OF US EXPORTERS TO FULFILL CITED CONTRACTS NOT DUE TO BAD FAITH BUT TO GOVERNMENT CONTROLS, CHANG REPLIED THAT IT WAS FOR JUST THIS REASON THAT PRC RAISING ISSUE WITH USG. APPARENTLY COUNTERING SOME EARLIER STATEMENTS THAT WE REALIZED HARDSHIP SCRAP CONTROLS HAD CAUSED MANY COUNTRIES, INCLUDING PRC, HE SAID THAT NON-DELIVERY OF SOME 400,000 TONS DID NOT RPT NOT WORK GREAT HARDSHIP ON PRC. BUT, HE SAID, SHORT HISTORY OF MODERN US-PRC TRADE MADE NON-DELIVERY OF SCRAP A CONSPICUOUS ISSUE. CHANG NOTED THAT FIRST QUARTER CONTINGENCY ALLOCATION HAD NOT BEEN AVAILABLE TO FIRMS WITH UNFULFILLED CONTRACTS (FYI: AMOUNT WAS MADE AVAILABLE ONLY TO HISTORICAL EXPORTERS, AND ONLY UNDER NEW CONTRACTS. END FYI) IF THIS IS WHAT USG HAS IN MIND FOR FOURTH QUARTER, HE SAID, IT WOULD BE NO HELP.

7. WE SAID FIRST-QUARTER RULES HAD BEEN ATTEMPT TO BE FAIR TO ALL BUYERS; HOWEVER, THIRD QUARTER (AND PROBABLY FOURTH-QUARTER) RULES PERMITTED ANY EXPORTER TO SHARE IN CONFIDENTIAL

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CONTINGENCY ALLOCATION, THOUGH STILL ONLY UNDER NEW CONTRACTS.

8. CLOSING, CHANG SAID PRC POSITION IS VERY SIMPLE; USG SHOULD MAKE ALLOCATIONS TO FIRMS WITH UNFULFILLED COMMITMENTS TO PRC. ARMSTRONG REPLIED THAT WE WISHED PROBLEM WERE THAT SIMPLE, BUT WE MUST WORK OUT A SOLUTION WHICH TREATS ALL BUYING NATIONS EQUITABLY. BECAUSE THE

TOTAL SUPPLY OF SCRAP IS LIMITED, WHAT WE DO FOR ONE AFFECTS WHAT WE CAN DO FOR OTHERS. BUT WE WILL REFER THE PRC'S POSITION TO THE APPROPRIATE AUTHORITIES FOR CAREFUL CONSIDERATION. WE SHARE THE PRC'S VIEW, HE SAID, THAT TRADE SHOULD BE FACILITATED IN KEEPING WITH THE SHANGHAI COMMUNIQUE.

9. ON THE WAY OUT, T'UNG CHIH-KUANG, WHO ACCOMPANIED CHANG AS INTERPRETER, ASKED FOR CONFIRMATION OF HIS UNDERSTANDING OF THIRD-QUARTER CONTINGENCY ALLOCATION RULES. WHEN THIS DONE, T'UNG REMARKED WITH A WRY CHUCKLE, QUOTE, OH, SO THESE ALLOCATIONS CAN ONLY BE USED IF WE RENEGOTIATE THE CONTRACTS UNQUOTE.

10. EA AND EB ARE EXPLORING WHERE WE GO FROM HERE. IN MEANTIME, WE WOULD WELCOME ANY THOUGHTS USLO AND CONGEN MAY HAVE.  
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